

Press Release

VIS Assigns Initial Entity Ratings to Damen Support Programme

Karachi, April 17, 2024: VIS Credit Rating Company Limited (VIS) assigns initial entity ratings to Damen Support Programme ('DSP' or the 'Institution') of 'BBB-/A-3' (Triple B Minus/A Three). Medium to long term rating of 'BBB-' indicates adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy. Short-term rating of 'A-3' indicates satisfactory liquidity and that other protection factors qualify entities/ issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected. Outlook on the assigned ratings is "Stable".

DSP is a spin-off of microcredit operations from its host non-profit organization - Development Action for Mobilization and Emancipation (DAMEN), registered under the Societies Registration Act, XXI of 1860, and set up to foster development at the grassroots level in Pakistan in 1992. DSP commenced operations as an independent microcredit entity in 2015, and spans a network of 64 operational branches, spread across 17 districts of Punjab.

The assigned ratings to DSP take into account sound performance and strategic management across various aspects of its microfinance operations. The Institution benefits from an experienced board and management team, ensuring stability and informed decision-making in navigating the complex microfinance landscape. The Institution's prudent credit risk mitigation strategies, including diligent lending practices and portfolio consolidation efforts, contribute to maintaining healthy asset quality and minimizing credit risks. Rising finance cost and inflationary pressures, have adversely affected core profitability in recent years. However, favorable interest rates dynamics expected from the current year onwards, recalibration of the portfolio mark-up rates to higher prevailing yields at the start of 2024, and continued growth as expected, is likely to help achieve a positive turnaround in profitability in the second half of FY2024.

Liquidity profile is sound with short-term credits, pre-dominantly extended under monthly installment repayment mechanisms, generating sufficient cashflows for debt servicing on a timely basis. Moreover, currency swap arrangements in place ensure the availability of foreign currency to redeem external borrowings as they fall due. Adequate capital adequacy and prudent reserve fund allocations underscore DSP's commitment to financial stability and risk management.

The challenging macroeconomic situation, manifest in high inflation and elevated credit costs, may potentially distress clients' disposable income and repayment capacities, and as such remains a key concern. More effective rate risk management, and currency risk management, could lead to improved ratings in future.

For further information on this ratings announcement, please contact at 021-35311861-64 or email at info@vis.com.pk.

Applicable Rating Criteria:

Non-Bank Financial Companies

<https://docs.vis.com.pk/docs/NBFCs202003.pdf>

VIS Issue/Issuer Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>